

Message Text

CONFIDENTIAL

PAGE 01 SAO PA 02606 01 OF 02 291642Z

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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NSC-05 PA-01 PRS-01 SS-15 USIA-06 NIC-01 FEAE-00

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R 291600Z NOV 74

FM AMCONSUL SAO PAULO

TO SECSTATE WASHDC 5775

AMEMBASSY BRASILIA

ZNE/AMCONSUL PORTO ALEGRE

AMCONSUL RIO DE JANEIRO

C O N F I D E N T I A L SECTION 1 OF 2 SAO PAULO 2606

E.O. 11652: GDS

TAGS: ECON, PGOV, PINT, PDEV, BL, BR, CO

SUBJECT: DISSENTING VIEWS OF A PROMINENT ARENA POLITICIAN -
NESTOR JOST

1. DURING TWO SUCCESSIVE EVENINGS, I HAD AN OPPORTUNITY FOR RATHER EXTENSIVE CONVERSATIONS WITH EX-BANCO DO BRASIL PRESIDENT AND DEFEATED ARENA SENATORIAL CANDIDATE IN RIO GRANDE DO SUL NESTOR JOST AT DINNER AT MY APARTMENT WHERE HE WAS BROUGHT BY A CLOSE AMERICAN/BRAZILIAN FRIEND OF HIS AND AT A DINNER ORGANIZED BY THE SAME FRIEND. BECAUSE OF JOST'S PAST AND POSSIBLE FUTURE PROMINENCE, SOME OF HIS VIEWS MAY BE OF INTEREST TO BRAZIL WATCHERS:

A. RECENT ELECTIONS: NESTOR JOST WAS GOOD HUMORED AND DISPLAYED NO BITTERNESS OVER HIS LOSS. HE RECALLED HE HAD NOT WANTED TO MAKE THE RACE. HE SAID HE HAD BEEN GREATLY ASSISTED BY GOVERNOR-ELECT GUAZELLI. ECONOMIC ISSUES HAD BEEN A MAJOR FACTOR. JOST CONCLUDED EARLY IN THE CAMPAIGN THAT HE WOULD NOT WIN DESPITE HIS BEST EFFORTS. REPORTS OF A STRONG GROUNDSWELL IN SAO PAULO FOR ORESTES QUERCIA HAD A SIGNIFICANT ADVERSE EFFECT ON THE OUTCOME IN RIO GRANDE DO
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PAGE 02 SAO PA 02606 01 OF 02 291642Z

SUL. (WHAT WE WOULD CALL A BAND WAGON EFFECT). HE WAS HAPPY TO

HAVE COMPLETED HIS PUBLIC SERVICE TO THE NATION FOR THE TIME BEING AND WAS LOOKING FORWARD TO LIVING IN RIO WHERE HE HAD BOUGHT A NEW HOUSE. (HE SPENT CONSIDERABLE TIME EXCHANGING RIO ADDRESSES WITH A NEW RIO BRAZILIAN/AMERICAN NEIGHBOR WHOM HE MET FOR THE FIRST TIME, AND SHOWED NO INTEREST IN RETURNING TO RIO GRANDE DO SUL OR IN DISCUSSING THE STATE'S PROBLEMS).

B. FEDERAL GOVERNMENT DEFICIENCIES: JOST CRITICIZED PRESIDENT GEISEL TO TWO CONGEN OFFICERS FOR OVERCENTRALIZING HIS ADMINISTRATION AND TAKING TOO MUCH RESPONSIBILITY INTO HIS OWN HANDS. AT THE SAME TIME, THERE WAS A NOTICEABLE LACK OF COORDINATION BETWEEN MINISTERS. THERE WERE INCONSISTENCIES IN THE POLICIES ANNOUNCED BY MINISTERS AND OFTEN RETRACTIONS OR DENIALS. JOST MENTIONED MINISTER OF AGRICULTURE PAULINELLI PARTICULARLY AND NOTED THAT HIS RIO GRANDE DO SUL OPPONENT, PAULO BROSSARD, HAD READ A WHOLE SERIES OF CONFLICTING STATEMENTS

BY THE MINISTER ON TELEVISION AND HAD ASKED RHETORICALLY WITH GREAT EFFECT, "WHAT ARE THE REAL VIEWS OF THE MINISTER?" IN GENERAL, THE MINISTERS TALK TOO MUCH. EXPANDING ON HIS THEMES, JOST NOTED THAT HE HAD INVITED DELFIM NETTO TO BE FINANCE MINISTER AT PRESIDENT COSTA E SILVA'S REQUEST. IT HAD BEEN TRADITIONAL THAT THE PRESIDENT OF THE BANK OF BRASIL AND THE FINANCE MINISTER ALWAYS FOUGHT, BECAUSE THE FORMER COVETED THE LATTER'S JOB, AND USUALLY OBTAINED IT BY UNDERMINING THE LATTER. JOST HAD INFORMED DELFIM WHEN HE RECRUITED HIM THAT THEY WOULD NEVER FIGHT AND THIS HAD PROVED TO BE THE CASE. JOST ALWAYS CONSIDERED THE PRESIDENCY OF THE BANK OF BRAZIL TO BE FAR MORE IMPORTANT THAN THE FINANCE MINISTRY AND HE NEVER HAD ANY AMBITION TOWARD THE LATTER. DELFIM WAS THE MOST FLEXIBLE PERSON WHO COULD RESPOND TO CHANGES IN THE POLITICAL AND ECONOMIC CLIMATE AND THAT WAS WHAT WAS NEEDED TODAY, RATHER THAN A RIGID, CENTRALIZED SYSTEM.

THERE WAS NO ONE TO DEFLECT OR SOOTHE PERSONAL ANIMOSITIES IN THE CABINET. JOST SAID HE HAD PLAYED A MOST IMPORTANT ROLE AS PEACEMAKER DURING HIS YEARS IN OFFICE. JOST DID MENTION ON SEVERAL OCCASIONS THAT

HE HAD TALKED WITH PRESIDENT GEISEL RECENTLY AND THAT HE WOULD HAVE TO GO BACK TO BRASILIA TO TALK ABOUT TRYING TO GET THE LEADERSHIP TO FACE (UNSPECIFIED) POLITICAL REALITIES.

C. THE BRAZILIAN ECONOMY: JOST SAID THE CRITICAL NEED WAS FOR COMPETENT MANAGERS AND EXPERTS IN ALL FIELDS. THE SIZE OF THE ECONOMY HAD DOUBLED IN ONLY A FEW YEARS. HE HAD TRAVELED EXTENSIVELY AND CONFIDENTIAL

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PAGE 03 SAO PA 02606 01 OF 02 291642Z

THOUGHT THAT THE REAL GROWTH RATE WAS IN EXCESS OF 10 PERCENT PER ANNUM. THERE WERE ABUNDANT SIGNS OF PROGRESS EVERYWHERE. BUT WHERE WERE THE MANAGERS TO RUN THIS EXPANDED ECONOMY? IT TOOK 20 YEARS TO TRAIN A REAL EXPERT. THIS WAS ONE OF THE EXPLANATIONS OF THE GOVERNMENT'S SHORTCOMINGS.

D. BRAZIL ENCOUNTERS ECONOMIC NATIONALISM: ASKED ABOUT THE PROSPECTS

FOR BOLIVIAN NATURAL GAS FOR BRAZIL IN THE NEAR FUTURE, JOST SAID

THAT THE WHOLE PACKAGE OF NEGOTIATIONS HAD ENCOUNTERED SNAGS AND THAT THE MATTER WOULD PROCEED VERY SLOWLY. IT WAS NOT JUST BOLIVIAN POLITICAL INSTABILITY, BUT THERE WAS GREAT CONCERN ON THE BOLIVIAN SIDE ABOUT BRAZILIAN ECONOMIC IMPERIALISM. THE ISSUE WAS NOT JUST LIMITED TO BOLIVIA. BRAZIL COULD MAKE EXCELLENT USE OF COLOMBIAN COAL IN ITS STEEL EXPANSION PROGRAM. ON THE ONE HAND, THE COLOMBIANS WERE RELUCTANT TO MAKE LONG TERM COMMITMENTS CONCERNING IMPORTANT RESOURCES. ON THE OTHER HAND, THE COST OF GETTING THE COAL OUT WOULD BE HIGH. BRAZIL WOULD HAVE TO FINANCE THE COST OF A 400 KILOMETER RAILROAD, AND THERE WAS THE POSSIBILITY THAT THE COLOMBIANS WOULD RENEGE ON THEIR DELIVERY COMMITMENTS OR NATIONALIZE THE RAILROAD AND/OR THE MINING INVESTMENT. THE IDEAL SOLUTION WOULD BE FOR U.S. PRIVATE ENTREPRENEURS TO BUILD THE COLOMBIAN RAILROAD AND ASSUME THE EXPROPRIATION RISK. BRAZILIANS, UNLIKE THE BRITISH, HAD LITTLE EXPERIENCE IN NEGOTIATING MAJOR INTERNATIONAL INVESTMENT DEALS, JUST MUSED, BUT, OF COURSE, INTERNATIONAL POLITICAL AND ECONOMIC CONDITIONS WERE DIFFERENT IN THE HEYDAY OF BRITISH INVESTMENT.

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PAGE 01 SAO PA 02606 02 OF 02 291645Z

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AMEMBASSY BRASILIA

INFO AMCONSUL RIO DE JANEIRO

C O N F I D E N T I A L SECTION 2 OF 2 SAO PAULO 2606

E. RECRUDESCENCE OF BRAZILIAN ECONOMIC NATIONALISM: I REFERRED TO THE REPORTED DIFFICULTIES WHICH THE INTERNATIONAL INVESTING

COMPANY, ADELA, HAD RECENTLY HAD WITH CERTAIN UNSPECIFIED MERGER PROJECTS WHERE THE PROSPECTIVE MERGER PARTNERS HAD SUDDENLY BEEN BAILED OUT WITH EXTENSIVE FINAME OR OTHER GOVERNMENT FUNDS. THE PROSPECTIVE MERGERS HAD THEN FALLEN THROUGH. I ASKED WHETHER THERE WAS A RESURGENCE OF ECONOMIC NATIONALISM IN BRAZIL. JOST REPLIED FIRST THAT ADELA WAS AN EXCELLENT COMPANY WHICH PROVIDED MONEY FROM VARIOUS INTERNATIONAL SOURCES AND HAD A LOT TO OFFER BRAZIL, PARTICULARLY IN MANAGEMENT EXPERTISE AND ADVICE. THE ADELA EXPERIENCE INDICATED THAT THERE WAS INDEED A RESURGENCE OF ECONOMIC NATIONALISM IN BRAZIL. IT WAS VERY BAD ECONOMIC POLICY AND BAD FOR THE COUNTRY.

F. NATIONAL ECONOMIC REGIONALISM: JOST SAID THAT EVEN WORSE THAN ECONOMIC NATIONALISM WAS THE GROWING ECONOMIC REGIONALISM IN BRAZIL. THERE WAS A LOT OF OPPOSITION TO THE ACQUISITION OF WEAK OR UN-ECONOMIC COMPANIES IN HIS STATE OF RIO GRANDE DO SUL BY SAO PAULO FIRMS. HE DERIDED THE CRITICS OF "DEGAUCHIZACAO" AND SAID THAT CONTROL OF CAPITAL AND THE MEANS OF PRODUCTION HAD TO FLOW INTO THE HANDS OF THOSE BEST ABLE TO USE THEM AND MAKE THEM GROW IN THE CONFIDENTIAL

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PAGE 02 SAO PA 02606 02 OF 02 291645Z

INTEREST OF THE WHOLE NATION. CENTRALIZATION OF ECONOMIC POWER WAS A UNIVERSAL PHENOMENON, AND BRAZIL COULD NOT EXPECT TO PROGRESS AND CATER TO LOCALISMS. THE NEW JOINT STATE OF RIO DE JANEIRO/ GUANABARA WAS LARGELY INSPIRED BY THE SAME PHILOSOPHY, IN THAT CASE ESTABLISHING AN ECONOMIC FORCE WHICH WOULD IN SOME MEASURE APPROACH THAT OF SAO PAULO. HE DISMISSED THIS FUSION AS AN ERRONEOUS POLICY. CHAPIN

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